BEFORE

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2022-2-E

In the matter of: Annual Review of Base Rates for Fuel Costs of Dominion Energy South Carolina, Incorporated (For Potential Increase or Decrease in Fuel Adjustment)	)	**Return to the Partial Petition for Reconsideration and/or Rehearing**

Dominion Energy South Carolina, Inc. ("DESC" or "Company") files this return to the Partial Petition for Rehearing and/or Reconsideration submitted by the South Carolina Coastal Conservation League and the Southern Alliance for Clean Energy (collectively "CCL/SACE") in the above-captioned matter. As is fully set forth below, the Public Service Commission of South Carolina (the "Commission") properly and correctly valued the 11 components of avoided costs contained in the net energy metering ("NEM") methodology in Order No. 2022-290. The Commission should reject the petition and adhere to the correctly decided order.

I. The Commission properly valued solar and recognized that CCL/SACE's illogical valuation of the NEM methodology would lead to increased customer bills.

The Company correctly calculated the value for the 11 components of the NEM Distributed Energy Resources (the "NEM Value Stack"). *See* Tr. p. 312.6:15–17. In an apparent effort to create confusion and manufacture error, CCL/SACE misconstrue testimony from Company witnesses Neely and Rooks on the NEM value of solar calculations. *See* Pet. p. 11. Despite CCL/SACE's efforts, the fact remains that the Order properly valued solar in accordance with

witness Neely's calculations. The Commission should reject CCL/SACE's claim to the contrary and adhere to its reasoning set forth in Order No. 2022-290.

The record establishes that the Company adhered to the 11 components of value for the NEM Value Stack set forth in Order No. 2015-194, as reaffirmed in Order No. 2021-569 issued in Docket No. 2019-182-E, with the modification to the long run values to reflect a 20-year avoided energy and capacity component.[1] *See* Tr. p. 153.2:10–13. CCL/SACE and the Company agreed on the current year and 20-year levelized values for avoided energy cost, ancillary services, avoided criteria pollutants, utility administration costs, and environmental costs. *See* Tr. p. 153.2:16–19.

The Company calculated the avoided capacity cost component based on avoided needed capacity for the current year and 20-year levelized periods. *See* Tr. p. 195:10–12. The Company does not have any capacity needs until 2028. *See* Tr. p. 145.9:7. As a result, the Company correctly set the current-year value at zero. *See* Tr. p. 145.9:7–8; Tr. p. 153.5:8–13. The Company set the 20-year levelized period to $0.00034/kWh in accordance with the Commission's directive in Docket 2021-88-E. *See* Tr. p. 145.9:5–6. As fully set forth in Section II, *infra*, CCL/SACE ignored the lack of needed capacity on the Company's system while using unreasonable assumptions to value its avoided capacity component.

The Company also properly calculated the value of transmission and distribution ("T&D") capacity. The Company's NEM distributed resources did not avoid any T&D capacity for the current year, so a zero value correctly accounted for that fact. *See* Tr. p. 145.11:4–6. The Company

[1] Notably, as indicated in witness Neely's testimony, the Company complied with the Public Utility Regulatory Policies Act's ("PURPA") requirements by calculating accurate "Current Period" and "20-Year Levelized" NEM methodology values. *Compare* Tr. p. 145.3:14–145.19:9 (witness Neely testifying about PURPA instructions and guidelines), *with* Tr. p. 289:16–25, 302.1:7–18 (witness Beach describing "working on the implementation of the [PURPA]" as experience).

utilized the average annual T&D costs from the 5-year budget that could be avoided and its average annual 20-year load growth to inform and develop the value for the 20-year levelized period as $0.001838/kWh. *See* Tr. p. 145.11:7–145.12:14. The Company also filed its plan for improving its ability to value T&D avoided cost on November 17, 2021, in accordance with Order No. 2021-569 in Docket No. 2021-182-E. *See* Tr. p. 145.12:13–15.

CCL/SACE, in contrast, incorrectly calculated T&D avoided costs. CCL/SACE's values include all transmission costs between 2009 and 2020 from FERC Form 1 and again all costs from the T&D investment growth plan from 2021 to 2025. *See* Tr. p. 153.6:12–20. As a result, CCL/SACE's costs include costs unrelated to load growth, such as safety, grid hardening and modernization, and lifecycle replacement and repair. *Id.* Moreover, CCL/SACE's values compute the growth of all transmission costs relative to load growth. *Id.* That is incorrect because the T&D avoided costs calculation includes costs associated with only load growth. *Id.*

The Company complied with Order No. 2015-194's directive to set the value of the avoided CO_2 emission cost at zero. No federal or state laws exist at this time that would yield an avoidable cost for those emissions. CCL/SACE ignore the lack of required legislation, and instead, arbitrarily assign value to that component. *See* Tr. p. 153.8:16–153.9:2. That approach violates Order No. 2015-194. *Id.*

On the fuel hedging component, the Company does not hedge fuels for electric generation, so the value was properly set at zero. *See* Tr. p. 153.9:6–7. CCL/SACE seek to include the benefits of the Company's fuel diversity in the component for fuel hedging program. But the Company accounts for its fuel diversity in the *avoided energy cost* component of the NEM value stack. *See* Trans. p. 231:9–232:10. CCL/SACE agreed with the Company's avoided energy cost valuation. *See* Tr. p. 153.2:16–19. Yet, as set forth in Section V, *infra*, CCL/SACE's position on fuel hedging

results in avoided energy costs from the energy costs saved by solar being double counted through a second inclusion in the fuel hedge component.

ORS, however, supported the Company's calculations on the contested values of solar and found "them to be in compliance with Order Nos. 2015-194 and 2021-569, as well as the Commission Directive in Docket 2021-88-E." *See* Tr. p. 312.6:15–17.

CCL/SACE's value of solar calculation in this docket would exceed the Company's retail rate. The Commission asked witness Neely about CCL/SACE's solar valuation and the impact of that valuation on customer bills. *See* Tr. p. 238. Specific to the issue of cost recovery when the value of solar exceeds the retail rate, the Commission engaged witness Neely in the following colloquy:

> **Q** [I]f, instead of the way you have calculated these numbers, you were to switch and go with the calculations the way Witness Beach recommends, what impact would that have on just regular customers' bills?
>
> **A** Well, the regular customers' bills would go up if we use his method, because . . . his long-term 20-year distributed energy resource number that he calculates, it's higher than our retail rate – which is very baffling how avoided cost could be higher than our retail rate, but that's what he calculates. And so, currently, we credit these distributed energy resources at their retail rate. If we – if we adopted his methodology, we'd be crediting them at higher than their retail rate, and so all of the rest of our customers would have to be – have to make up that differen[ce] between the retail rate and this new rate that Beach calculated.

Tr. p. 238:20–239:11.

Witness Neely's testimony accurately explained the long-term impact resulting if the value of solar exceeded the retail rate. First, the utility would credit DER at an inaccurate rate that is higher than the retail rate. As a result, the amounts credited to the DER that are in excess of the true and accurate value of solar would become costs incurred by the utility. Then, those costs are

ultimately passed along to the Company's customers and recovered in a general rate proceeding. *See* Tr. p. 238:20–239:11.

As part of its analysis and rejection of CCL/SACE's solar valuation, the Commission cited this common-sense rationale—a solar value exceeding the retail rate would lead to increased costs to customers. The Commission's conclusion was correct, proper, and supported by the record. What matters is an accurate value of solar. Setting a solar value that is not only inaccurate but also exceeds the Company's retail rate would neither be reasonable nor prudent.

II. The Commission correctly valued avoided capacity in accordance with its prior orders.

CCL/SACE's second argument includes two parts. The first is a contention that the Commission deviated from Order No. 2021-569 (the "Generic NEM Order") in setting the avoided capacity value in this proceeding. *See* Pet. p. 13–15. Specifically, CCL/SACE claim that DESC failed to utilize hourly load data in its forecasted capacity analysis, resulting in the allegedly erroneous ruling. *Id.* at 15. This is incorrect.

Witness Neely's testimony on this very issue—in response to questions from CCL/SACE—illustrates that DESC complied with the Commission orders for the avoid capacity calculations:

> **Q** You would agree with me that solar contributes more to Dominion's capacity on a hot summer day compared with a spring day?
>
> **A** It does, yes.
>
> **Q** Okay. Thank you. But Dominion's calculation assumes that solar has the same contribution to capacity every day of the year, does it not?
>
> **A** No, it does not. It compares the net load profile with a distributed energy resource profile and determines the contribution that distributed energy resource makes ***each hour of the year, and the***

> ***contribution is not the same each hour of the year***. So we have followed the Commission's instructions.

Tr. p. 209:19–210:7 (emphasis added). DESC considered and valued solar on a daily and hourly basis, including those days in which the value of solar peaked. This analysis fully complies with Order No. 2021-569 on avoided capacity. As a result, the Commission correctly valued the avoided capacity factor in this matter and reject CCL/SACE's arguments on this issue.

The Commission should likewise deny the second part CCL/SACE's argument in which they claim that the order "neglects to make any specific findings of fact regarding whether DESC has a near-term capacity need." *See* Pet. p. 16. As an initial matter, it is unclear what CCL/SACE requests because there is no "near-term" period to value for the avoided capacity factor analysis. Avoided capacity factor is valued on a current year and 20-year levelized period. *See* Tr. p. 145.7:6–7. The Commission properly ruled on the avoided cost calculations for those periods.

CCL/SACE base the claim that the Commission did not account for the "near-term" combustion turbine ("CT") replacement by DESC in the avoided capacity factor. *See* Pet. pp. 16–17. That is incorrect.

The CT units are "in-kind" replacements of existing CT units, *see* Tr. p. 153.5:17–153.6:2, with such replacement being agreed to in a settlement executed by CCL/SACE, *see* Tr. p. 195:16–19, and were not added to provide additional capacity, *see* Tr. p. 181:10–16. The Company had no capacity needs at the time of the CT replacement units. *See* Tr. p. 237:19–21. The new CT units will have nominally higher nameplate capacity rating than the prior aging gas turbines due to efficiencies of the new units and the type and size units available on the marketplace. *See* Tr. p. 237:11–238:5. That does not change the fact that the CT units were in-kind replacements of older units and does not alter the avoided capacity calculation accepted by the Commission. As witness Neely testified in response to questions from CCL/SACE:

> But the point that you're trying to make is we should've included the CT-plan turbines in the avoided capacity calculation. And, no, we should not have, because those are critical and reliability functioning units that have to be replaced with critical and reliability function units. And distributed energy resources cannot replace that criticality or that reliability, so they should not have been included, and they weren't included in my avoided capacity calculation. They shouldn't have been included in witness Beach's avoided capacity calculation. It's not appropriate.

Tr. p. 184:13–24.[2]

The evidence established that DESC has "no capacity to be avoided" in the current-year period of 2022. *See* Tr. p. 153.5:11–16. The CT replacements do not alter that conclusion. DESC had "no capacity need before the CT plan. After the CT plan is executed, there won't be an additional capacity need. So it's not appropriate to add any avoided capacity megawatts for the CT plan." Tr. p. 197:11–14. DESC will not have capacity needs until 2028. *See* Tr. p. 178:13–18. Witness Neely's valuation of the 20-year levelized avoided capacity factor accounted for that future capacity need. *See* Tr. p. 145.9:3–150:5.

Lastly, witness Beach's peak allocation factor analysis—which the Commission has declined to adopt in previous matters—overvalues solar because it accounts for the first megawatt of solar added to the system in 2009. *See* Tr. p. 148:9–17. As witness Neely testified:

> Using an average of the value of the first megawatt with the last megawatt artificially inflates the current value. The first megawatt added to the system occurred years ago. The capacity values should be based on the current configuration of the system and represent the current avoided capacity value, as done in the Company's calculations.

[2] CCL/SACE position simply misapprehends the fact that the avoided capacity factor must be valued based on avoided *needed* capacity and not *available* capacity. *See* Tr. p. 195:10–12. The CT replacements did not and will not avoid needed capacity. As noted herein, the CT units replaced the older existing CT units. DESC has no current year capacity needs and will not have any needed capacity until 2028. *See* Tr. p. 178:13–18.

Id. CCL/SACE's petition asks the Commission to ignore the fact that the avoided capacity factor should be valued based on avoided needed capacity and not available capacity. Simply stated, DESC has no current-year capacity needs and will not have any needed capacity until 2028. Thus, the Commission correctly calculated the avoided capacity factor and should reject the petition on this issue.

III. The Commission properly valued the line loss component for the NEM methodology.

CCL/SACE allege that the Commission's Order and DESC "ignore[]" the line loss standard in Order No. 2021-569. *See* Pet. p. 17. CCL/SACE specifically allege that DESC failed to meet the requirement to value marginal line losses in valuing the line loss component. *See* Pet. p. 18. This is incorrect, and, in fact, misrepresents the Commission's ruling in Order No. 2021-569.

Before addressing DESC's fulfillment of Order No. 2021-569's mandates on valuing the line loss component, it must address CCL/SACE's inaccurate representation of the order's mandates. CCL/SACE are correct that the Commission directed utilities to "determine the marginal losses associated with customer-generator facilities." Order No. 2021-569 at 46. CCL/SACE's argument, however, ignores the next sentence in the order. That sentence provides that the utility could "develop[] a plan within 90-days of this Order to acquire this capability" if "marginal line loss data does not exist for an electrical utility." *Id.* It is that second sentence that reflects DESC's compliance with Order No. 2021-569.

DESC did not have the marginal line loss data, so it timely filed its Marginal Line Loss Plan on November 17, 2021. *See* Tr. p. 163:2–3. That plan is currently being implemented according to the timeline set forth therein, but DESC does not yet have the marginal line loss data. As such, DESC applied "its current approach for deriving losses for its distribution system, which

is based on a rigorous analysis of metered data that reconciles with measured data." *See* Tr. p. 145.16:6–145.18:3. DESC calculated its current year and 20-year levelized line loss values on that basis.[3] *Id.* Therefore, DESC complied with the line loss methodology.

The Commission recognized DESC's compliance and correctly held DESC's computation of the line loss component was reasonable and prudent. *See* Order No. 2022-290 at 38. The petition should be denied on this issue.

IV. The evidence supports the Commission's finding on the valuation of the transmission and distribution ("T&D") component of the value stack.

CCL/SACE aver that the Commission failed to properly support its finding on the valuation of avoided T&D component. *See* Pet. p. 19. In support, CCL/SACE again distort and ignore the testimony in the record. The Company did not merely state the T&D "value was zero because the T&D value in the current period was zero." *Id.* Rather, the testimony reveals the Company conducted a robust review and calculation to establish that the current year T&D was, in fact, zero.

The Company did not arbitrarily set the current year T&D value to zero. The Company complied with Order No. 2021-291(A) by recalculating each value in the NEM value stack and then refiled the updated numbers in this docket. *See* Tr. p. 160:2–9. The Company "looked at every value, and we have justified every value that we put in the value stack." *See* Tr. p. 161:13–15. In response to questions from CCL/SACE, witness Neely explained the reasoning to support that value, noting:

> **Q** ". . . . Assumptions of zero transmission and distribution capacity value for net energy metering solar should be revised and a system average non-zero value be included in the marginal cost analysis to inform any new NEM rates. Does that — does that sound familiar to you?

[3] For the calculation of marginal line losses, DESC assumes that marginal line losses for distribution are 100% higher than average line losses. For marginal transmission line losses, average line losses are used. DESC's transmission is configured as a network; therefore, transmission marginal losses are approximately equal to average losses. *See* Tr. p. 153.10:4–9.

> **A** Yeah. And also in that same order, the Commission said, if the utility doesn't have the data to do the calculation, they should file a plan to come up with the data. And on November 17th of 2021, we filed our T&D avoided cost and line loss plan. And so that's an important piece of that docket. Also, if you'll notice in the 20-year value-of-solar stack that we do have a T&D avoided cost, and we calculated —we looked to calculate both the current period and the 20-year period. But there's no load growth in the current period, and so it's impossible to calculate an avoided T&D cost related to load growth when there's no load growth. So we have calculated each value, current period and 20-year period. The current period is zero. That's the appropriate calculation. And in the—and in the 20-year period, we've calculated a value of . . . $.001838 per kilowatt-hour.

Tr. p. 162:16–163:15. The reason the current year period is zero is because "the Company's NEM distributed resources do not avoid either transmission or distribution capacity." *See* Tr. p. 165:13–17. And that is because:

> **Q** There's no avoided transmission and distribution cost in the current period because there's no load growth in the current period. Is that right?
>
> **A** That's correct.

Tr. p. 166:1–5.

CCL/SACE also suggest that DESC did not use best practices because it did not compare its methods to other utilities' methods. *See* Pet. p. 20. Yet, they fail to explain how a comparison of methods would evidence that the method used was not a best practice. Witness Neely's testimony establishes that DESC used a reliable and valid method, a method that is unquestionably a best practice. He testified that DESC has "confidence that we have accurately calculated the avoided T&D cost for both the current period and the 20-year period." *See* Tr. p. 177. And when further questioned by CCL/SACE, he reiterated the same point:

> **Q** So—so the company is asserting that its method is best practice, but it has not reviewed any other utility practices; is that correct?

> **A** We believe that we have — we've done the best job at calculating the avoided T&D costs on our system, with our system resources, with our system load growth and history. We believe we've calculated the best avoided T&D cost for the current period and the 20-year period.

Tr. p. 177:2–17. Thus, witness Neely unambiguously explained the process and inputs used to make the T&D calculation and explained it to be a best practice based on DESC's system load growth history. The Commission's conclusion that DESC's method is both reasonable and prudent is correct.

Witness Beach's calculations, on the other hand, are not reasonable. Those calculations "are overstated because he includes costs in his calculation that are not related to load growth and are not avoidable by distributed energy resources." *See* Tr. p. 150:10–14. The Commission correctly rejected witness Beach's calculations in the Order for that reason. *See* Order No. 2022-290 at 33. The Commission's ruling is supported by the evidence.

V. The Commission properly valued the fuel hedging component of the value stack in recognition of the fact that the Company does not utilize a fuel hedging program for generation.

In the final section of the petition, CCL/SACE request that the Commission account for the benefits of the Company's fuel diversity in the valuation of the fuel hedging component of the NEM value stack. *See* Pet. pp. 22–23. The request evidences CCL/SACE's misunderstanding of the NEM value stack components.

As previously noted, the Company accounts for its diverse mix of generation resources in the *avoided energy cost* component of the NEM value stack. *See* Trans. p. 231:9–232:10. If the Commission were to adopt CCL/SACE's position, those avoided energy costs resulting from the energy costs saved by solar on the system would be double counted. They would be counted as

part of the avoided energy cost component and then counted again in the fuel hedging component. *Id.*

Further, as noted in Order No. 2015-194, the fuel hedging component defines fuel hedging as the "administrative ***costs***" related to "the ***future price*** of fuel." *See* Order 215-194 at 9 (emphasis added). The component, therefore, recognizes it covers the financial cost associated with a fuel hedging program. The explanation for why this is the case is a logical one. Financial hedging programs incur the costs contemplated by the fuel hedging component as recognized by the Commission:

> **A** My understanding of hedging, though, in the long term—you spend the same amount for cost for the fuel over the long term, if you have a hedge or if you don't have a hedge. All the hedge does is remove the volatility so that your ups—
>
> **Q** Uh-huh.
>
> **A** —and your highs and lows are not as great. But there, again, you've got to pay for the hedging program, so you've got those additional costs.
>
> **Q** That, I understand. That, I get.

Tr. p. 230:25–231:9.

And because fuel hedging would result in increased cost to its customers in the long run, DESC does not engage in fuel hedging for generation. Given the fact that DESC does not have a fuel hedging program and DESC accounts for energy costs savings associated with the DER in the avoided energy cost component of the NEM value stack, the Commission properly found that the component for fuel hedging should be zero.

VI. Conclusion

The Company's calculations of the value for each component for the NEM value stack were reasonable and prudent and complied with prior rulings from the Commission. The Commission should deny the partial petition for rehearing and adhere to its well-reasoned and factually supported Order No. 2022-290.

Respectfully submitted,

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May 20, 2022